

Message Text

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PAGE 01 STATE 277739
ORIGIN TRSE-00

INFO OCT-01 EB-08 ISO-00 AF-10 ARA-15 EA-12 EUR-12
NEA-11 IO-15 SP-02 AID-05 SS-15 STR-07 OMB-01
CEA-01 CIAE-00 COME-00 FRB-01 INR-10 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 PA-02 ICAE-00 INRE-00
NSCE-00 SSO-00 DOE-15 SOE-02 AGRE-00 DODE-00 /160 R

DRAFTED BY TREAS:FLWIDMAN:DS

APPROVED BY EB:HORMATS

TREAS:AMSOLOMON

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FM SECSTATE WASHDC

TO ALL DIPLOMATIC AND CONSULAR POSTS IMMEDIATE

UNCLAS STATE 277739

INFORM CONULS

C O R R E C T E D C O P Y (MSG INCOMPLETE)

.O. 11652: N/A

TAGS: EGEN

SUBJECT:STATEMENT ON MEASURES TO STRENGTHEN DOLLAR

1. THIS MESSAGE TRANSMITS THE VERBATIM TEXTS OF: (1) A
STATEMENT ISSUED BY PRESIDENT CARTER AT 9:00 AM EST
NOVEMBER 1 CONCERNING ACTION BEING TAKEN TO STRENGTHEN THE
DOLLAR AT HOME AND ABROAD; (2) A JOINT STATEMENT BY
SECRETARY OF THE TREASURY W. MICHAEL BLUMENTHAL AND
WILLIAM MILLER, CHAIRMAN OF THE FEDERAL RESERVE BOARD; AND
(3) A PRESS RELEASE ISSUED BY THE FEDERAL RESERVE SYSTEM.

2. POSTS SHOULD MAKE THESE MATERIALS AVAILABLE PROMPTLY
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EXPECTED TO ISSUE CONFIRMING STATEMENTS SIMULTANEOUSLY
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3. OBVIOUSLY THE WIDER THE DEGREE OF SUPPORT FOR THIS PROGRAM THE MORE SUCCESSFUL IT WILL BE.

4. BEGIN TEXT OF STATEMENT BY PRESIDENT CARTER: "LAST WEEK, I PLEDGED MY ADMINISTRATION TO A BALANCED, CONCERTED, AND SUSTAINED PROGRAM TO FIGHT INFLATION. THAT PROGRAM REQUIRES EFFECTIVE POLICIES TO ASSURE A STRONG DOLLAR.

5. THE BASIC FACTORS THAT AFFECT THE STRENGTH OF THE DOLLAR ARE HEADING IN THE RIGHT DIRECTION. WE NOW HAVE AN ENERGY PROGRAM; OUR TRADE DEFICIT IS DECLINING; AND LAST WEEK I PUT IN PLACE A STRONG ANTI-INFLATION PROGRAM. THE CONTINUING DECLINE IN THE EXCHANGE VALUE OF THE DOLLAR IS CLEARLY NOT WARRANTED BY THE FUNDAMENTAL ECONOMIC SITUATION. THAT DECLINE THREATENS ECONOMIC PROGRESS AT HOME AND ABROAD AND THE SUCCESS OF OUR ANTI-INFLATION PROGRAM.

6. AS A MAJOR STEP IN THE ANTI-INFLATION PROGRAM, IT IS NOW NECESSARY TO ACT TO CORRECT THE EXCESSIVE DECLINE IN THE DOLLAR WHICH HAS RECENTLY OCCURRED. THEREFORE, PURSUANT TO MY REQUEST THAT STRONG ACTION BE TAKEN, THE DEPARTMENT OF THE TREASURY AND THE FEDERAL RESERVE BOARD ARE TODAY INITIATING MEASURES IN BOTH THE DOMESTIC AND INTERNATIONAL MONETARY FIELDS TO ASSURE THE STRENGTH OF THE DOLLAR.
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7. THE INTERNATIONAL COMPONENTS OF THIS PROGRAM HAVE BEEN DEVELOPED WITH OTHER MAJOR GOVERNMENTS AND CENTRAL BANKS, AND THEY INTEND TO COOPERATE FULLY WITH THE UNITED STATES IN ATTAINING OUR MUTUAL OBJECTIVES.

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BEGIN TEXT OF JOINT STATEMENT BY TREASURY SECRETARY W. MICHAEL BLUMENTHAL AND FEDERAL RESERVE BOARD CHAIRMAN WILLIAM MILLER: RECENT MOVEMENT IN THE DOLLAR EXCHANGE RATE HAS NOT ONLY EXCEEDED ANY DECLINE RELATED TO FUNDAMENTAL FACTORS, BUT PLAINLY IS HAMPERING PROGRESS TOWARD PRICE STABILITY AND DAMAGING THE CLIMATE FOR INVESTMENT AND GROWTH. THE TIME HAS COME TO CALL A HALT TO THESE DEVELOPMENTS. THE TREASURY AND FEDERAL RESERVE ARE TODAY ANNOUNCING COMPREHENSIVE CORRECTIVE ACTIONS.

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THE CURRENCY MOBILIZATION MEASURES, DESCRIBED IN THE ATTACHED ANNEX, INCLUDE DRAWINGS ON THE U.S. RESERVE TRANCHE IN THE IMF, FOR PART OF WHICH WE CONTEMPLATE THAT THE GENERAL ARRANGEMENTS TO BORROW WILL BE ACTIVATED; SALES OF SPECIAL DRAWING RIGHTS; INCREASES IN CENTRAL UNCLASSIFIED

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BANK SWAP FACILITIES; AND ISSUANCE OF FOREIGN CURRENCY DENOMINATED SECURITIES BY THE U.S. TREASURY.

FUNDAMENTAL ECONOMIC CONDITIONS AND GROWTH TRENDS IN THE FOUR NATIONS ARE MOVING TOWARD A BETTER INTERNATIONAL BALANCE. THIS WILL PROVIDE AN IMPROVED FRAMEWORK FOR A RESTORATION OF MORE STABLE EXCHANGE MARKETS AND A CORRECTION OF RECENT EXCESSIVE EXCHANGE RATE MOVEMENTS.

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(U.S. WOULD DRAW DM AND YEN TOTALLING THE EQUIVALENT OF \$2 BILLION IMMEDIATELY. AN ADDITIONAL \$1 BILLION EQUIVALENT DRAWING WOULD BE MADE SHORTLY THEREAFTER, FOR WHICH GAB ACTIVATION WOULD BE CONTEMPLATED.)

2. SALE OF SDR 2.0

B. ACTIONS INCREASING FEDERAL RESERVE SWAP LINES:

1. INCREASE IN SWAP LINES WITH BUNDESBANK TO 6.0
2. INCREASE IN SWAP LINE WITH BANK OF JAPAN TO 5.0
3. INCREASE IN SWAP LINE WITH SWISS NATIONAL BANK TO 4.0

C. ISSUANCE OF FOREIGN CURRENCY DENOMINATED SECURITIES
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TOTAL 30.0

(OF THIS TOTAL, APPROXIMATELY DM 8 BILLION HAS BEEN UTILIZED IN EARLIER OPERATIONS UNDER FED SWAP LINES, BUT THE TOTAL EXCLUDES TREASURY SWAP FACILITY WITH BUNDESBANK.)

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THE FEDERAL RESERVE BOARD ANNOUNCED THE FOLLOWING SPECIFIC ACTIONS:

-- APPROVAL OF A ONE PERCENTAGE POINT INCREASE IN THE DISCOUNT RATE AT THE FEDERAL RESERVE BANK OF NEW YORK FROM 8-1/2 TO 9-1/2 PERCENT, EFFECTIVE IMMEDIATELY. THE DISCOUNT RATE IS THE RATE THAT IS CHARGED MEMBER BANKS WHEN THEY BORROW FROM THEIR DISTRICT FEDERAL RESERVE BANK.

-- ESTABLISHMENT OF A SUPPLEMENTARY RESERVE REQUIREMENT - EQUAL TO 2 PERCENT OF TIME DEPOSITS IN DENOMINATIONS OF 100,00 DOLLARS OR MORE.

-- INCREASES IN THE FEDERAL RESERVE'S RECIPROCAL CURRENCY (SWAP) ARRANGEMENTS WITH THE CENTRAL BANK OF GERMANY, JAPAN, AND SWITZERLAND BY 7.6 BILLION DOLLARS TO 15 BILLION DOLLARS, AND ACTIVATION OF THE SWAP ARRANGEMENT WITH THE BANK OF JAPAN. FOREIGN CURRENCIES AVAILABLE UNDER THESE EXPANDED ARRANGEMENTS WILL BE USED

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ALONG WITH FOREIGN CURRENCIES AVAILABLE TO THE TREASURY IN A PROGRAM OF FORCEFUL EXCHANGE MARKET INTERVENTION IN COORDINATION WITH THE FOREIGN CENTRAL BANKS TO CORRECT RECENT EXCESSIVE EXCHANGE RATE MOVEMENTS.

THE SUPPLEMENTARY RESERVE REQUIREMENT WILL APPLY TO ALL OUTSTANDING LARGE-DENOMINATION TIME DEPOSITS BEGINNING

THURSDAY, NOVEMBER 2, WITH RESERVES MAINTAINED TWO WEEKS LATER. EXISTING RESERVE REQUIREMENTS ON SUCH DEPOSITS RANGE FROM 1 PERCENT FOR LONGER-TERM DEPOSITS TO 6 PERCENT ON DEPOSITS MATURING IN LESS THAN 6 MONTHS.

THE SUPPLEMENTARY REQUIREMENT OF 2 PERCENT WILL APPLY TO ALL LARGE-DENOMINATION TIME DEPOSITS REGARDLESS OF MATURITY, AND WILL INCREASE REQUIRED RESERVES BY ABOUT \$3 BILLION.

THE RESERVE REQUIREMENT ACTION WILL HELP TO MODERATE THE RECENT RELATIVELY RAPID EXPANSION IN BANK CREDIT. IT WILL ALSO INCREASE THE INCENTIVE FOR MEMBER BANKS TO BORROW FUNDS FROM ABROAD AND THEREBY STRENGTHEN THE DOLLAR BY IMPROVING THE DEMAND IN EURO-MARKETS FOR DOLLAR-DENOMINATED ASSETS.

A SWAP ARRANGEMENT IS A RENEWABLE, SHORT-TERM FACILITY UNDER WHICH A CENTRAL BANK AGREES TO EXCHANGE ITS OWN CURRENCY FOR THE CURRENCY OF THE OTHER PARTY UP TO A SPECIFIED AMOUNT. IN ALL RECIPROCAL CURRENCY ARRANGEMENTS THE FEDERAL RESERVE BANK OF NEW YORK ACTS ON BEHALF OF THE FEDERAL RESERVE SYSTEM UNDER THE DIRECTION OF THE FEDERAL OPEN MARKET COMMITTEE. THE FEDERAL RESERVE'S RECIPROCAL CURRENCY ARRANGEMENTS WITH THE CENTRAL BANKS OF GERMANY, JAPAN, AND SWITZERLAND ARE NOW AS FOLLOWS:

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A COPY OF THE JOINT TREASURY-FEDERAL RESERVE ANNOUNCEMENT IS ATTACHED. END TEXT. VANCE

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C O R R E C T E D C O P Y (ANNEX PARA C FOURTH LINE)

FOLLOWING REPEAT STATE 277739 ACTION ALLDIP AND CONS POSTS NOV 1

QUOTE UNCLAS STATE 277739

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UNQUOTE VANCE

ORIGINAL DISTR: TRSE/EB,ISO,REBU,IO,ECHL,ECON,PA,DOE,SOE,AGRE,DODE,,

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PAGE 01 STATE 277739

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UNCLAS STATE 277739

FOLLOWING REPEAT STATE 277739 ACTION ALLDIP AND CONS POSTS NOV 1

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ANNEX - UNITED STATES MEASURES FOR MOBILIZING BALANCES OF DM, YEN AND SWISS FRANC
\$ BIL.

A. ACTIONS IN THE INTERNATIONAL MONETARY FUND:

1. DRAWING OF U.S. RESERVES TRANCHE 3.0

(U.S. WOULD DRAW DM AND YEN TOTALLING THE EQUIVALENT OF \$2 BILLION IMMEDIATELY. AN ADDITIONAL \$1 BILLION EQUIVALENT DRAWING WOULD BE MADE SHORTLY THEREAFTER, FOR WHICH GAB ACTIVATION WOULD BE CONTEMPLATED.)

- -

2. SALE OF SDR 2.0

B. ACTIONS INCREASING FEDERAL RESERVE SWAP LINES:

1. INCREASE IN SWAP LINES WITH BUNDESBANK TO 6.0
2. INCREASE IN SWAP LINE WITH BANK OF JAPAN TO 5.0
3. INCREASE IN SWAP LINE WITH SWISS NATIONAL BANK TO 4.0

C. ISSUANCE OF FOREIGN CURRENCY DENOMINATED SECURITIES UP TO 10.0
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TOTAL 30.0
(OF THIS TOTAL, APPROXIMATELY \$,.8 BILLION
HAS BEEN UTILIZED IN EARLIER OPERATIONS
UNDER FED SWAP LINES, BUT THE TOTAL EX-
CLUDES TREASURY SWAP FACILITY WITH
BUNDESBANK.)

ED TEXT.

BEGIN TEXT OF PRESS RELEASE BY FEDERAL RESERVE BOARD:

THE TREASURY DEPARTMENT AND THE FEDERAL RESERVE TODAY
ANNOUNCED MEASURES TO STRENGTHEN THE DOLLAR AND TO COUNTER
CONTINUING DOMESTIC INFLATIONARY PRESSURES.

THE FEDERAL RESERVE BOARD ANNOUNCED THE FOLLOWING
SPECIFIC ACTIONS:

-- APPROVAL OF A ONE PERCENTAGE POINT INCREASE IN THE
DISCOUNT RATE AT THE FEDERAL RESERVE BANK OF NEW YORK FROM
8-1/2 TO 9-1/2 PERCENT, EFFECTIVE IMMEDIATELY. THE DIS-
COUNT RATE IS THE RATE THAT IS CHARGED MEMBER BANKS WHEN
THEY BORROW FROM THEIR DISTRICT FEDERAL RESERVE BANK.

-- ESTABLISHMENT OF A SUPPLEMENTARY RESERVE REQUIRE-
MENT - EQUAL TO 2 PERCENT OF TIME DEPOSITS IN DENOMINA-
TIONS OF 100,00 DOLLARS OR MORE.

-- INCREASES IN THE FEDERAL RESERVE'S RECIPROCAL
CURRENCY (SWAP) ARRANGEMENTS WITH THE CENTRAL BANK OF
GERMANY, JAPAN, AND SWITZERLAND BY 7.6 BILLION DOLLARS
TO 15 BILLION DOLLARS, AND ACTIVATION OF THE SWAP
ARRANGEMENT WITH THE BANK OF JAPAN. FOREIGN CURRENCIES
AVAILABLE UNDER THESE EXPANDED ARRANGEMENTS WILL BE USED
ALONG WITH FOREIGN CURRENCIES AVAILABLE TO THE TREASURY
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IN A PROGRAM OF FORCEFUL EXCHANGE MARKET INTERVENTION IN
COORDINATION WITH THE FOREIGN CENTRAL BANKS TO CORRECT
RECENT EXCESSIVE EXCHANGE RATE MOVEMENTS.

THE SUPPLEMENTARY RESERVE REQUIREMENT WILL APPLY TO
ALL OUTSTANDING LARGE-DENOMINATION TIME DEPOSITS BEGINNING
THURSDAY, NOVEMBER 2, WITH RESERVES MAINTAINED TWO WEEKS
LATER. EXISTING RESERVE REQUIREMENTS ON SUCH DEPOSITS
RANGE FROM 1 PERCENT FOR LONGER-TERM DEPOSITS TO 6 PERCENT
ON DEPOSITS MATURING IN LESS THAN 6 MONTHS.

THE SUPPLEMENTARY REQUIREMENT OF 2 PERCENT WILL APPLY TO
ALL LARGE-DENOMINATION TIME DEPOSITS REGARDLESS OF MATURITY,

AND WILL INCREASE REQUIRED RESERVES BY ABOUT \$3 BILLION.

THE RESERVE REQUIREMENT ACTION WILL HELP TO MODERATE THE RECENT RELATIVELY RAPID EXPANSION IN BANK CREDIT. IT WILL ALSO INCREASE THE INCENTIVE FOR MEMBER BANKS TO BORROW FUNDS FROM ABROAD AND THEREBY STRENGTHEN THE DOLLAR BY IMPROVING THE DEMAND IN EURO-MARKETS FOR DOLLAR-DENOMINATED ASSETS.

A SWAP ARRANGEMENT IS A RENEWABLE, SHORT-TERM FACILITY UNDER WHICH A CENTRAL BANK AGREES TO EXCHANGE ITS OWN CURRENCY FOR THE CURRENCY OF THE OTHER PARTY UP TO A SPECIFIED AMOUNT. IN ALL RECIPROCAL CURRENCY ARRANGEMENTS THE FEDERAL RESERVE BANK OF NEW YORK ACTS ON BEHALF OF THE FEDERAL RESERVE SYSTEM UNDER THE DIRECTION OF THE FEDERAL OPEN MARKET COMMITTEE. THE FEDERAL RESERVE'S RECIPROCAL CURRENCY ARRANGEMENTS WITH THE CENTRAL BANKS OF GERMANY, JAPAN, AND SWITZERLAND ARE NOW AS FOLLOWS:

GERMAN FEDERAL BANK \$6 BILLION
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BANK OF JAPAN \$5 BILLION

SWISS NATIONAL BANK \$4 BILLION

A COPY OF THE JOINT TREASURY-FEDERAL RESERVE ANNOUNCEMENT IS ATTACHED. END TEXT. VANCE

UNQUOTE VANCE

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